

Financial Markets



Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

**Economic Research &
Planning Division**

Friday
(Noon)

June 15, 1984

Over the past week the Fed funds rate has tended toward the 11% level with unsettling frequency. Funds closed tight at the end of the Fed's last statement period, averaging 11.03% on the last day. Since then the daily average funds rate has been above 10.75% on four of five business days. This is a much higher level than has been maintained in previous periods, but it corresponds to the higher funds rate we began to see in the last reserve maintenance period. As a result, market participants have been cautious. Short-term rates have bounced around somewhat, while long-term rates improved. However, both short and long rates declined on Thursday after the release of M1, M2 and M3 data. This is perplexing because these data were not good (money growth was strong across the board). What are these markets telling us?

The market tea leaves are brewing something that seems quite inconsistent. The long end of the market wants to lead rates down at the very time short rates are being more strongly underpinned by the Fed. While the yield curve certainly may have some room to flatten, we must wonder whether or not conditions exist that square with such a twist of events at this time.

One positive development is the (seeming) willingness of the bond market to concede that good news might exist somewhere. Yet what perplexes is that this reaction occurs now. We certainly must characterize this move as speculative and not reactive. The Fed has kept reserve conditions tight; plus the money numbers showed a larger-than-expected weekly rise in M1 (leaving it \$1.2 billion short of the top of its long-run range); faster-growing M2 (still \$4 billion short of the midpoint of its long-term range, but \$0.5 billion over its interim range); accelerating M3 growth (now \$9.7 billion over its long-term range and nearly \$8 billion above its interim range). In addition to these aggregates, the Fed's credit aggregate posted a 13.4% rate of growth in April (or 13.1% from its December base), exceeding its 11% allowable rate. Thus all the monetary data were bad. Even the weekly credit numbers showed C&I loans in New York up \$1.1 billion, and nonfinancial commercial paper up \$2.1 billion. This is why I characterize the bond market's behavior as speculative, not reactive.

Surely the bond market is anticipating upcoming economic data. Already there are mixed--not clear--signs of a slowing in the economy. The market may be encouraged, but will we get enough slowing for the Fed to ease? In the short run, the best bet seems to be "no." There is no reason to infer that the markets think that the Fed funds rate will decline soon, if we judge from the spread of funds to CDs; it's about normal. CDs may turn out to have rates that are too high, but the market is wary of the Fed. In any event, short rates are more constrained by Fed action than long rates. But can the long-term market rally much further unless the Fed validates the rally? Budget deficits still overhang the bond market. There can be no real lasting party if the Fed is still imposing a strict curfew. While I think the market--not the Fed--will have to lead rates down, I would suggest a wait-and-see attitude to the bond market's most recent jubilation.

Robert A. Brusca



Irving Trust

Market Yields

	6/15/84 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	12.50%	12.50%	10.50%
Effective since	5/8/84		
Discount Rate at Federal Reserve Bank	9.00	9.00	8.50
Federal Funds	11.13	10.69	8.88
Repurchase Agreements	10.75	10.38	8.88
U.S. Treasury Issues			
Bills			
3 months	10.25	10.23	8.95
6 months	11.08	11.26	9.28
1 year	11.80	12.05	9.50
Coupons			
2 years	12.66	12.77	10.08
4 years	13.04	13.20	10.03
7 years	13.21	13.51	10.62
10 years	13.23	13.53	10.67
Long Bond	13.16	13.47	10.75
Negotiable Certificates of Deposit-Secondary Market			
1 month	10.80	10.75	9.00
3 months	11.10	11.13	9.10
6 months	11.70	11.75	9.45
1 year	12.55	12.50	9.75
Banker's Acceptances			
1 month	11.00	10.95	8.99
3 months	11.22	11.31	9.15
6 months	11.92	12.14	9.45
Eurodollar Deposits			
1 month	11.31	11.13	9.38
2 months	11.38	11.38	9.44
3 months	11.56	11.63	9.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	10.87	10.75	9.02
1 month	11.00	10.95	9.19
3 months	11.09	10.88	9.21
Bank Holding Companies			
1 month	10.48	10.33	8.68
Dealer Placed:			
3 months	11.41	11.15	9.24
New AA Corporate Utility Bond	14.25	14.55	11.80
Tax Exempt			
6 month Project Notes	5.75	5.85	4.90
1 year AAA Bond	6.40	6.25	5.50
5 year AAA Bond	8.10	8.15	6.75
20 year AAA Bond	10.00	10.25	8.70

This information represents prevailing market yields.

It should not be construed as an offering.

All yields are on the offered side of the market.

Cable Address:

"IrvingBank" Telex: I.T.T. 420268 • R.C.A. 232241

W.U.I. 62832 • French 82629